

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

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VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

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GEFFEN MESHER
— & COMPANY, P.C. —
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Vigor Industrial LLC and Subsidiaries
Portland, Oregon

We have audited the accompanying consolidated balance sheets of Vigor Industrial LLC and Subsidiaries (collectively, the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, members' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vigor Industrial LLC and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations, members' equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating information on pages 26 to 30 is presented for purposes of additional analysis of the basic consolidated statements, rather than to present the financial position, the results of operations and cash flows of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The additional supplemental information on pages 31 and 32 is presented for additional analysis and is not a required part of the basic financial statements. However, the additional information on pages 31 and 32 has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Geffen Mesher & Company P.C.

March 27, 2009



VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

December 31,	2008	2007
Current assets		
Cash and cash equivalents	\$ 5,550,394	\$ 6,514,865
Accounts receivable, net	17,849,611	12,798,240
Costs and estimated earnings in excess of billings on uncompleted contracts	6,025,706	3,061,870
Inventories	818,574	727,480
Prepaid expenses and other	825,544	926,260
Prepaid income taxes	443,697	256,854
Total current assets	31,513,526	24,285,569
Property, plant and equipment, net	28,424,050	17,973,632
Investment in US Barge LLC		63,481
Goodwill, net	7,661,777	7,661,777
Other assets	1,320,746	930,782
Total assets	\$ 68,920,099	\$ 50,915,241

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

December 31,	2008	2007
Current liabilities		
Current portion of long-term debt	\$ 2,467,173	\$ 1,558,112
Accounts payable	5,112,778	5,198,174
Accrued expenses	4,050,771	2,297,375
Billings in excess of cost and estimated earnings on uncompleted contracts	362,151	729,683
Deferred income taxes	826,534	450,079
Total current liabilities	12,819,407	10,233,423
Fair value of interest rate swap	2,000,644	
Investment in US Barge LLC	687,087	
Long-term debt, net of current portion	20,198,529	9,408,822
UAR plan liability	1,888,185	1,343,868
Deferred income taxes	448,813	9,033
Total liabilities	38,042,665	20,995,146
Commitments and contingencies		
Members' equity	30,877,434	29,920,095
Total liabilities and members' equity	\$ 68,920,099	\$ 50,915,241

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,	2008	2007
Contract revenues	\$ 157,001,950	\$ 104,603,915
Cost of contract revenues	127,638,201	85,637,162
Gross profit	29,363,749	18,966,753
General and administrative expenses	7,233,780	7,091,867
Income from operations	22,129,969	11,874,886
Other income (expense)		
Interest expense	(901,266)	(678,705)
Interest income	115,481	386,362
Tenant income, net of expenses	951,435	1,272,322
Loss from US Barge LLC	(4,707,864)	(1,031,404)
Gain on extinguishment of debt	487,782	
Write-down of dry dock held for sale	(600,000)	
Other income, net	189,878	152,651
Total other income (expense)	(4,464,554)	101,226
Income before income taxes	17,665,415	11,976,112
Income tax expense	5,362,887	3,778,466
Net income	\$ 12,302,528	\$ 8,197,646

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

	<u>Membership</u>		<u>Accumulated other comprehensive loss</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>			
Balance, January 1, 2007	499,800	\$2,095,257		\$ 23,927,192	\$26,022,449
Net income				8,197,646	8,197,646
Distributions to members				(4,300,000)	(4,300,000)
Balance, December 31, 2007	499,800	2,095,257		27,824,838	29,920,095
Net income				12,302,528	12,302,528
Change in fair value of cash flow hedge			(\$ 2,000,644)		(2,000,644)
Change in fair value of cash flow hedge held by US Barge LLC			(752,705)		(752,705)
Total comprehensive income					9,549,179
Redemption of member units	(48,960)	(209,526)		(4,882,314)	(5,091,840)
Distributions to members				(3,500,000)	(3,500,000)
Balance, December 31, 2008	450,840	\$1,885,731	(\$ 2,753,349)	\$ 31,745,052	\$30,877,434

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2008	2007
Cash flows from operating activities		
Net income	\$ 12,302,528	\$ 8,197,646
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,845,847	1,420,750
Allowance for doubtful accounts	170,686	13,455
Deferred income taxes	816,235	50,204
Write-down of drydock held for sale	600,000	
(Gain) loss on disposal of equipment	(6,838)	33
Gain on extinguishment of debt	(487,782)	
Loss from US Barge LLC	4,707,864	1,031,404
Other non-cash items	21,697	44,116
UAR plan expense	544,317	1,343,868
Changes in operating assets and liabilities		
Accounts receivable	(8,831,444)	(2,456,349)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,963,836)	2,596,410
Inventories	(91,094)	96,271
Prepaid expenses and other	100,716	330,250
Prepaid income taxes	(186,843)	(86,975)
Other assets	(693,217)	
Accounts payable	(85,396)	1,987,700
Accrued expenses	1,753,396	(324,903)
Billings in excess of costs and estimated earnings on uncompleted contracts	(367,532)	467,245
Net cash provided by operating activities	9,149,304	14,711,125

(Continued)

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31,	2008	2007
Cash flows from investing activities		
Purchases of property, plant and equipment	(12,232,843)	(4,399,766)
Investment in US Barge LLC	(1,100,000)	(1,500,000)
Change in drydock held for sale	(225,084)	17,523
Proceeds from sale of equipment	8,100	300
Net cash used in investing activities	(13,549,827)	(5,881,943)
Cash flows from financing activities		
Scheduled principal payments on long-term debt	(1,478,982)	(1,601,994)
Extinguishment of long-term debt	(8,920,571)	
Borrowings on long-term debt	20,000,000	
Debt issuance costs	(118,475)	
Redemption of member units	(2,545,920)	
Distributions to members	(3,500,000)	(4,300,000)
Net cash provided by (used in) financing activities	3,436,052	(5,901,994)
Net change in cash and cash equivalents	(964,471)	2,927,188
Cash and cash equivalents at beginning of year	6,514,865	3,587,677
Cash and cash equivalents at end of year	\$ 5,550,394	\$ 6,514,865
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 979,563	\$ 667,359
Cash paid for income taxes	\$ 4,728,495	\$ 3,819,010
Supplemental disclosure of noncash investing and financing activities		
Conversion of accounts receivable to equity investment in US Barge, LLC	\$ 3,610,000	
Redemption of member units in exchange for note payable	\$ 2,545,920	

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

1. Lines of business

Lines of business

Vigor Industrial LLC and Subsidiaries (collectively the “Company”) was formed on August 7, 2000 as a limited liability company in the state of Oregon. The Company, headquartered in Portland, Oregon, owns 100% of the five subsidiaries discussed below.

Cascade General, Inc., Washington Marine Repair LLC, and Vigor Marine LLC perform repair, maintenance and conversion work on vessels in Oregon, Washington and California.

Shipyard Commerce Center LLC owns and operates the Portland Shipyard Commerce Center facility (the “Portland Shipyard”).

Specialty Finishes LLC performs large industrial and marine painting operations, and paints small industrial parts.

In addition, the Company holds a 50% interest in US Barge LLC (“USB”), a business formed in 2006 that engages in the design, manufacture, marketing, and sale of large barges under vessel construction contracts.

2. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its five wholly-owned subsidiaries. The Company’s 50% joint venture interest in USB is accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. Significant estimates include the percentage of completion of contracts, accrued industrial accident insurance, allowance for doubtful accounts, useful lives of property and equipment, impairment of goodwill and other long-lived assets, the recoverability of deferred tax assets, the intrinsic value of unit appreciation rights, swap agreements, and liabilities related to contingencies (see Note 17).

Fair value measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”) for financial assets and liabilities. SFAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach), and expands disclosures relating to the use of fair value measurements. SFAS 157 is applied under existing accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. The adoption of SFAS No. 157 did not have a material impact on the Company’s consolidated financial position or results of operations.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 157-2, "*Effective Date of FASB Statement No. 157*" ("FSP 157-2"). This Staff Position delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company will defer the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on a recurring basis, until January 1, 2009, but does not expect the adoption of the remaining portions of SFAS 157 to have a material impact on the Company's consolidated financial position or results of operations.

The levels of hierarchy under SFAS 157 are described below:

- Level 1:** Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2:** Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3:** Unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Financial assets and liabilities are classified in the hierarchy discussed above based on the level in the hierarchy within which the fair value measurement falls in its entirety based on the most stringent level of input that is significant to the fair value measurement.

The following table presents a summary of items measured at fair value under SFAS 157 as of December 31, 2008:

	Level 1	Level 2	Level 3
Interest rate swap			\$ 2,000,644
Security deposit (Note 8)	\$ 763,968		

To determine the value of the interest rate swaps as of December 31, 2008, the Company relied on a mark-to-market valuation prepared by its lender using a mathematical model that calculates the present value of the anticipated cash flows from the transaction using mid-market prices and economic data and assumptions and/or by means of pricing indications from one or more other dealers selected at its discretion.

Signal Mutual utilized Level 1 inputs to measure the fair value of the security deposit investments at December 31, 2008, resulting in an unrealized gain of \$18,486.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

Derivative instruments

During the year ended December 31, 2008, the Company entered into certain interest rate swap agreements. Accordingly, the Company adopted SFAS No. 133 "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS 133") and its subsequent amendments, which requires that all derivatives be recognized at fair value in the balance sheet, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of relationship that exists (see Note 11). The Company does not use derivative instruments for speculative purposes.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, and accounts receivable. The Company maintains its cash in bank accounts that are fully guaranteed by the U.S. Government. Cash equivalents are primarily comprised of investments in U.S. Treasuries and other Government Agency obligations or investments that are fully guaranteed by the U.S. Government. The Company extends credit based on an evaluation of each customer's financial condition and does not require collateral. Generally, accounts receivable are due no more than 30 days after the issuance of the invoice. Receivables past due more than 90 days are considered delinquent. The Company maintains allowances for potential credit losses. The Company individually reviews all delinquent accounts receivable balances to determine if an allowance for potential credit losses is necessary. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

As of and for the year ended December 31, 2008, two customers each represented approximately 29% of the total accounts receivable balance and three customers accounted for approximately 24%, 15%, and 11% of contract revenues. No other customers accounted for more than 10% of accounts receivable or contract revenues as of and for the year ended December 31, 2008.

As of December 31, 2007, three customers represented approximately 23%, 20%, and 13%, respectively, of the total accounts receivable balance. No other customers accounted for more than 10% of accounts receivable, and no customers accounted for more than 10% of contract revenues for the year ended December 31, 2007.

Operating cycle

Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets, as they will be realized and liquidated in the normal course of contract completion, although this may require more than one year. The length of the Company's contracts vary but are typically less than one year.

Cash and cash equivalents

The Company considers all highly-liquid investments with an original maturity date of three months or less at the date of acquisition, to be cash equivalents.

Inventories

Inventories are stated at the lower of average cost or market. Inventories consist of raw materials and recycled oil held for resale.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 33 years. Expenditures for repairs and maintenance are expensed as incurred; however, major betterments are capitalized. At the time of retirement or other disposal of property, plant and equipment, the cost and related accumulated depreciation or amortization are removed from their respective accounts and the resulting gain or loss, if any, is included in other income.

Property, plant and equipment are reviewed for impairment in accordance with SFAS No. 144, "*Accounting for the Disposal of Long-Lived Assets*" ("SFAS 144"). The Company assesses property, plant and equipment for impairment whenever changes in circumstances indicate that the carrying values of the assets may not be recoverable. Determination of the recoverability is based on an estimate of the discounted future cash flows resulting from the use of the assets in comparison to the carrying amount.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. The Company accounts for its goodwill in accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets*" ("SFAS 142"). Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but rather, are evaluated for impairment on an annual basis, or more frequently if events or circumstances indicate potential impairment. The Company adopted SFAS 142 effective January 1, 2002, at which time it stopped amortizing goodwill.

In accordance with SFAS No. 142, the Company tests goodwill at the reporting unit level for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company performs its annual impairment test by determining the fair value of each reporting unit using a discounted cash flow model and comparing this fair value to the carrying value of the reporting unit, including goodwill. The Company estimates future discounted cash flows using assumptions about the expected future operating performance of the Company. The Company's estimates of discounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions or changes to its business operations. The Company determined that there is no impairment of goodwill as of December 31, 2008.

Revenue recognition

Contract revenue is primarily recognized using the percentage-of-completion method in the ratio that labor hours incurred bear to the estimated total labor hours of the contract. Adjustments to revenue and contract cost estimates are made in the periods in which the facts, which require such revisions, become known. Losses are provided for in full when the loss can first be estimated. The Company may provide a warranty which is determined on a contract-by-contract basis. Estimated warranty costs, if any, are included in the contract cost estimates.

Revenue from claims against customers is recognized when the amount can be reasonably estimated and collection is probable. Costs associated with claims negotiation are expensed as incurred.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Amounts earned on contracts in progress in excess of billings are classified as current assets (under billings) and designated in the accompanying consolidated balance sheet as "Costs and estimated earnings in excess of billings on uncompleted contracts". Amounts billed in excess of earnings and costs are classified as current liabilities (over billings), and designated in the accompanying consolidated balance sheet as "Billings in excess of costs and estimated earnings on uncompleted contracts".

UAR plan long-term liabilities

On January 1, 2007, the Company adopted the provisions of SFAS No. 123(R), "*Share-Based Payment*" ("SFAS 123(R)"). This statement requires that the liability and related compensation cost associated with the Company's Unit Appreciation Rights Plan (see Note 12) be re-measured each reporting period based on either the fair value or intrinsic value of the unit appreciation rights. The Company accounts for its Unit Appreciation Rights Plan liability based on the intrinsic value.

Income taxes

The Company and all of its subsidiaries, except Cascade General, Inc., are limited liability companies, whereby the tax attributes are attributed directly to the members for federal and state tax purposes. The Company and these subsidiaries are responsible for income taxes at the city and county levels.

Cascade General, Inc. accounts for income taxes in accordance with Statements of Financial Accounting Standards ("SFAS") No. 109 "*Accounting for Income Taxes*" ("SFAS 109"). Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance on net deferred tax assets is recorded when it is more likely than not, that such assets will not be realized.

Recent accounting pronouncements

In June 2006, the FASB issued Interpretation Number 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"), which requires a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit at the largest amount which is more than 50% likely of being realized upon ultimate settlement. In December 2008, the FASB issued FSP FIN 48-3, "*Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Entities*" ("FSP FIN 48-3"), which allows certain non-public companies the election to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008. The Company meets the criteria of FSP FIN 48-3 and has elected the option to defer adoption. The Company has not completed its analysis to determine the impact of adoption; however, the Company does not expect FSP FIN 48-3 to have a material effect on the Company's consolidated financial position or results of operations.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

In December 2007, the FASB issued SFAS No. 141 (Revised), "*Business Combinations*" ("SFAS 141(R)"), which replaced SFAS No. 141, "*Business Combinations*" ("SFAS 141"). SFAS 141(R) retains the fundamental requirements of SFAS 141, but broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires that consideration exchanged be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and is required to be applied prospectively.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements in order to conform to the current year presentation.

3. Accounts receivable

Accounts receivable consists of the following at December 31:

	2008	2007
Contracts receivable	\$ 17,992,398	\$ 12,590,197
Unbilled retentions	75,868	257,203
Other	28,329	27,751
	18,096,595	12,875,151
Less allowance for doubtful accounts	246,984	76,911
Accounts receivable, net	\$ 17,849,611	\$ 12,798,240

4. Costs and estimated earnings in excess of billings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts at December 31 are summarized as follows:

	2008	2007
Costs incurred during the year on uncompleted contracts	\$ 41,278,875	\$ 16,298,875
Estimated gross profit	8,945,562	2,969,018
	50,224,437	19,267,893
Costs and estimated earnings incurred during the prior year on uncompleted contracts	2,276,086	
Less billings and unbilled retentions to date	(47,062,660)	(17,290,768)
	5,437,863	1,977,125
US Barge tenant activities	18,962	320,417
Substantially completed projects	206,730	34,645
	\$ 5,663,555	\$ 2,332,187

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

4. Costs and estimated earnings in excess of billings on uncompleted contracts (continued)

These amounts are included in the accompanying balance sheet under the following captions:

	2008	2007
Cost and estimated earnings in excess of billings	\$ 6,025,706	\$ 3,061,870
Billings in excess of costs and estimated earnings	(362,151)	(729,683)
	\$ 5,663,555	\$ 2,332,187

Contract revenues and costs of revenues for the years ended December 31, 2008 and 2007 consist of the following:

	Revenues earned	Cost of revenues earned	Gross profit
2008			
Contracts completed	\$ 106,777,513	\$ 86,359,326	\$ 20,418,187
Contracts in progress	50,224,437	41,278,875	8,945,562
Earnings from contracts	\$ 157,001,950	\$ 127,638,201	\$ 29,363,749
2007			
Contracts completed	\$ 85,336,022	\$ 69,338,287	\$ 15,997,735
Contracts in progress	19,267,893	16,298,875	2,969,018
Earnings from contracts	\$ 104,603,915	\$ 85,637,162	\$ 18,966,753

5. Property, plant and equipment

Property, plant and equipment consist of the following at December 31:

	2008	2007
Land and improvements	\$ 5,762,050	\$ 2,722,696
Buildings	13,084,938	10,815,189
Dry docks and berths	12,490,248	7,272,048
Equipment	15,158,695	13,921,681
Furniture and fixtures	2,090,711	1,777,433
Leasehold improvements	341,151	313,954
Capital projects in process	3,148,777	3,109,393
	52,076,570	39,932,394
Less accumulated depreciation	23,652,520	21,958,762
Property, plant and equipment, net	\$ 28,424,050	\$ 17,973,632

Depreciation expense for property, plant and equipment was \$1,781,463 and \$1,413,049 for the years ended December 31, 2008 and 2007, respectively.

Capital projects in process includes a project to refurbish and modify certain dry dock sections to form a functioning dry dock. During 2008, the Company capitalized \$112,409 of interest associated with this project.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

6. Investment in US Barge LLC

USB was formed in July 2006 to build barges at the Company's Portland Shipyard Commerce Center facility. The two 50% owners of USB are the Company and Oregon Iron Works, Inc., a local steel fabrication company, (the "Members").

Effective September 2006, USB executed a lease with the Company, which includes six building bays, certain outdoor space and a gantry crane. The lease term is five years with options for two additional five-year periods. USB pays the Company \$25,000 per month and is also responsible for the payment of maintenance and property taxes. The lease rate will escalate to a negotiated fair market value on the third anniversary of the lease. The lease rate for the option years will also be based upon a negotiated fair market value at the time of exercise.

While barge building began in late 2006, the period through the end of 2007 also included a significant project to upgrade the leased real estate and to acquire production equipment. In recognition of its lack of financial resources, management personnel and production work force during its start-up period, USB entered into identical time and material contracts with the Members to provide certain labor, materials and services. These relationships, and a lesser amount of services performed by the Members on a fixed-price basis, have continued through the end of 2008, but to a decreasing extent. During 2007, USB began providing the majority of its production labor from its own work force. By December 2008, USB was no longer relying on the Members to purchase the majority of its materials and third party services utilized in USB's operations.

The December 31, 2008 and 2007 financial statements of USB were reviewed by outside accountants. The information is summarized as follows:

	2008	2007
Assets		
Current assets	\$ 1,300,408	\$ 7,186,153
Capital assets	11,842,418	16,843,322
	<u>\$ 13,142,826</u>	<u>\$ 24,029,475</u>
Liabilities and members' equity		
Current liabilities owed to Members	\$ 1,596,324	\$ 6,530,757
Other current liabilities	2,892,286	8,084,135
Long-term liabilities	8,522,982	9,287,620
Fair value of interest rate swap	1,505,410	
Members' equity	131,234	126,963
Accumulated other comprehensive loss	(1,505,410)	
	<u>\$ 13,142,826</u>	<u>\$ 24,029,475</u>
Contract revenues	<u>\$ 36,230,404</u>	<u>\$ 35,018,138</u>
Net loss	<u>(\$ 9,415,729)</u>	<u>(\$ 2,062,807)</u>

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

6. Investment in US Barge LLC (continued)

USB had two barge building contracts with a combined backlog of approximately \$12,000,000, and three barge building contracts with a combined backlog of approximately \$46,000,000 as of December 31, 2008 and 2007, respectively. The Members have guaranteed backlog of approximately \$4,000,000.

Additionally, the Company secured a contract in February 2009, which will generate approximately \$20,000,000 of revenue, the majority of which will be recognized in 2009. This contract is guaranteed by the Members and was not included in USB's backlog as of December 31, 2008.

During 2008, the Company paid USB \$5,075,000 to purchase a floating dry dock. The purchase price was approximately equal to USB's net book value.

During 2008, the Members each infused \$1,100,000 of cash equity into USB and converted an additional \$3,610,000 of accounts receivable due from USB to equity.

The Members have jointly and severally guaranteed a note payable that USB has with KeyBank (the "KeyBank Guarantee"). The note is payable in monthly installments of \$63,720, plus interest at 7.10% per year. The note is due in December 2017 and is collateralized by substantially all the assets of USB. At December 31, 2008, the outstanding principal on this note was \$9,287,620.

At December 31, 2008, USB was not in compliance with certain debt covenants included in the original loan agreement with KeyBank; however, the bank waived these violations in conjunction with an amendment to the loan agreement in January 2009. In January 2009, the Company signed an amendment to the original loan agreement which temporarily increases the interest rate on the loan from 7.1% to 7.6%.

As of December 31, 2008, the Company's share of losses in USB exceeded the carrying amount of its investment, and due to the existence of the KeyBank Guarantee, the Company's investment in USB has been written down below \$0.

The Company earned contract revenue of approximately \$3,200,000 and \$3,900,000 from USB during 2008 and 2007, respectively. The gross loss on these revenues was approximately \$10,000 and \$460,000 during 2008 and 2007, respectively.

The Company also earned lease income, and provided labor, materials and subcontractor services to assist USB in accomplishing leasehold improvements. These earnings amounted to approximately \$900,000 and \$6,900,000 during 2008 and 2007, respectively. The expenses related to these earning were approximately \$600,000 and \$6,770,000 during 2008 and 2007, respectively. The earnings and related expenses are included in the accompanying consolidated statements of operations as tenant income, net of expenses.

At December 31, 2008 and 2007, the Company had accounts receivable due from USB of approximately \$430,000 and \$2,600,000, respectively. In addition, there was approximately \$277,000 and \$600,000 of costs and estimated earnings in excess of billings relating to work for USB at December 31, 2008 and 2007, respectively.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

7. Goodwill

Goodwill consists of the following at December 31:

	2008	2007
Goodwill	\$ 11,719,082	\$ 11,719,082
Less accumulated amortization	4,057,305	4,057,305
Goodwill, net	\$ 7,661,777	\$ 7,661,777

There were no changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007.

8. Other assets

Other assets consist of the following at December 31:

	2008	2007
Security deposit held by Signal Mutual	\$ 763,968	
Drydock held for sale	447,189	\$ 822,105
Unamortized loan costs	109,589	55,800
Other assets		52,877
	\$ 1,320,746	\$ 930,782

The Company satisfied its security requirement with Signal Mutual (see Note 10) by providing \$745,482 of cash which is invested in the Signal Security Accumulation Trust (the "Trust"). The Trust's primary investment objective is to preserve the security of principal through high quality rated bonds.

The Company has a project to dismantle, reclaim, process and sell the old growth timbers that are components of a wooden dry dock. The carrying value of the components of the dry dock, which is classified as asset held for sale in the table above, is the amount by which future proceeds are expected to exceed future costs. During the year ended December 31, 2008, the Company recorded a net \$600,000 write-down after revising its estimate of the future costs to be incurred.

9. Line of credit

The Company has a revolving line of credit with KeyBank, which provides for borrowings up to \$7,000,000. The line of credit is payable on demand and expires in June 2009. Borrowings under the line accrue interest at the prime rate (3.25% at December 31, 2008) minus 0.5% and are collateralized by substantially all of the non-equipment and non-real estate assets of the Company, and the equipment of Cascade General, Inc. The Company is subject to certain financial covenants under this facility. No amounts were outstanding under this line of credit at December 31, 2008 or 2007.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

10. Accrued expenses

Accrued expenses consist of the following at December 31:

	2008	2007
Accrued payroll and payroll-related expenses	\$ 2,658,462	\$ 1,912,376
Accrual for future industrial accident insurance premiums	308,392	
Accrual for environmental investigations (see Note 17)	430,000	
Accrued interest	97,972	63,860
Other accrued expenses	555,945	321,139
	\$ 4,050,771	\$ 2,297,375

Effective April 1, 2008, the Company satisfied its requirements for industrial accident insurance by joining Signal Mutual Indemnity Association ("Signal Mutual"), a mutual insurance company consisting of approximately 200 members. Under the provisions of the membership, members pay approximately 90% of the expected premiums during the course of a twelve-month insurance period. Approximately 10% of the expected premiums, which are dependent upon the loss experience of Signal Mutual as a whole, are paid three years after the end of the twelve-month insurance period. Using information provided by Signal Mutual, the Company accrued the estimated future premiums relating to the year ended December 31, 2008.

11. Long-term debt

The Company accomplished a debt restructuring between April and June 2008 at which time the Company entered into a \$20,000,000 term loan facility with KeyBank. The proceeds from the new term loan facility were used to extinguish three existing term debt obligations with combined principal balances of \$8,920,571. The remaining proceeds were primarily used to fund the acquisition of property and equipment during 2008.

One of the existing term debt obligations was extinguished at an amount lower than the carrying cost of the note. The resulting gain on extinguishment is included in the accompanying consolidated statements of operations.

In connection with the debt restructure, the Company entered into interest rate swap agreements to manage the interest rate exposure associated with certain variable rate borrowings. The interest rate swaps effectively convert an aggregate notional principal amount equal to the note payable with KeyBank from a floating rate facility to a fixed rate facility, with interest rates ranging from 5.73% to 6.12%. The underlying terms of the interest rate swap agreements, including the notional amounts, interest rate index, duration and reset dates, are identical to those of the associated notes and, therefore, the hedging relationship results in no ineffectiveness under SFAS 133. Under the swap agreements, the Company receives a floating rate of LIBOR plus 1.50 (1.93% at December 31, 2008) and pays a fixed rate ranging from 5.73% to 6.12%. The swap is recorded in the accompanying consolidated balance sheet at fair value, and is classified as an asset or liability based on whether it is in an unrealized gain or loss position, respectively. Any changes in the fair value of the swap are recorded in accumulated other comprehensive income. If the Company fully or partially extinguishes the floating rate facilities prior to maturity, a portion of the unrealized gains or losses that have accumulated in other comprehensive income would be recognized in earnings at that time. The Company could incur an additional penalty upon early termination of the swap agreements. Due to management's intent to make payments on the note payable in accordance with the terms of the agreements, the fair value of the swap is recorded as a long-term liability in the accompanying consolidated balance sheet.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

11. Long-term debt (continued)

Long-term debt consists of the following at December 31:

	2008	2007
Note payable to a former owner of the Company, uncollateralized, payable in monthly installments of \$76,306, including interest at 5.00% per year, due January 2012 (see Note 13)	\$ 2,545,920	
Notes payable to KeyBank, payable in aggregate monthly installments of \$125,895, plus interest at thirty-day LIBOR plus 1.50%, collateralized by all of the Company's real estate, subject to the same financial covenants as the line of credit (see Note 9), due April 2018. See above for more information.	19,041,208	
Note payable to Key Bank, payable in monthly installments of \$12,052, including interest at 6.79% per year, collateralized by a gantry crane and subject to the same financial covenants as the line of credit (see Note 9), due January 2014	618,821	\$ 717,014
Note payable to the Port of Portland, paid in full in April 2008		8,163,964
Note payable to a financial institution, paid in full in April 2008		744,007
Note payable to an entity, paid in full in April 2008		832,379
Stock purchase obligation with a former owner of the Company, principal payable in equal monthly installments of \$7,500, without interest, due August 2015, less unamortized discount of \$139,254 and \$179,437, respectively, based on imputed interest of 8.25% per year	459,753	509,570
	22,665,702	10,966,934
Less current portion	2,467,173	1,558,112
	\$ 20,198,529	\$ 9,408,822

Future maturities of long-term debt are as follows:

Year ending December 31,	
2009	\$ 2,467,173
2010	2,683,039
2011	2,842,380
2012	2,154,155
2013	2,209,576
Thereafter	10,309,379
	\$ 22,665,702

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

12. UAR Plan liability

In 2007, the Company adopted a Unit Appreciation Rights Plan (the "UAR Plan") for the benefit of certain members of senior management (the "Participants"). The objective of the UAR Plan is to motivate the Participants to increase the value of the Company. The cost of the UAR Plan is an additional element of compensation for the Participants.

The UAR Plan was authorized and is administered by the Board of Directors (the "Board"), which determines, in its sole discretion, the number and grant dates of the units to be awarded, and any necessary modifications to the UAR Plan in the event of changes in the capital structure of the Company. The Board has initially authorized the issuance of 100,000 units under the UAR Plan. The units vest over a five-year period, with credit given for service prior to the effective grant date of the units. The UAR Plan is structured so that the maximum UAR Plan cost will be equal to 20% of the increase in the value of the Company.

An earnings-multiple formula, as specified in the UAR Plan, established the initial value of the units granted. In the event of a change of control, the ending value of the vested units is determined by the sales price of the Company. In the event that a participant's active status with the Company ends prior to a change of control, the participant may, depending upon the Board's evaluation of the circumstances of the termination, be entitled to the appreciation of the vested units held. In that instance, the ending value of the vested units is determined by the UAR Plan formula.

The unit appreciation will generally be paid out in five equal annual installments, without interest, commencing upon the occurrence of a triggering event (as defined in the UAR Plan agreement). In the event of a change in control, the unit appreciation may, at the Board's discretion, be paid out in a lump sum amount.

The Company has elected to calculate the value of the appreciation rights under the UAR Plan using the intrinsic value method, which approximates fair value. This per unit valuation is then applied to the vested rights outstanding to determine the liability. The liability amount accrued on the balance sheet is adjusted at each balance sheet date, with the adjustment reflected in the statement of operations.

Changes in the UAR plan liability for 2008 are summarized as follows:

	Issued units	Vested units	Aggregate beginning intrinsic value	Intrinsic unit appreciation	Aggregate ending intrinsic value
January 1, 2007 balances	-0-	-0-	\$ -0-	\$ -0-	\$ -0-
Units issued	48,250	42,250	36.88		
Units vested		1,500	36.88		
Unit appreciation				30.72	1,343,868
December 31, 2007 balances	48,250	43,750			1,343,868
Appreciation of previously granted units				9.34	408,573
Vesting of previously granted units		1,500	36.88	40.06	60,090
Units issued	19,500	8,100	67.60	9.34	75,654
December 31, 2008 balances	67,750	53,350			\$ 1,888,185

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

13. Members' equity

Members' ownership percentages at December 31 are as follows:

	2008	2007
Frank J. Foti	97.74%	88.16%
Andrew G. Rowe Revocable Trust		9.80
Bruce A. Dummer	2.26	2.04
	100.00%	100.00%

On December 31, 2008, the Company redeemed all of the units held by the Andrew G. Rowe Revocable Trust. The redemption price of \$5,091,840 consisted of a \$2,545,920 cash payment and a \$2,545,920 promissory note (see Note 11).

14. Commitments

Lease agreements

The Company leases certain real estate in Oregon and Washington under various leases that expire on various dates between 2010 and 2015. The Company also leases equipment under a separate lease that expires in 2012. The aggregate future minimum payments under these leases that have remaining non-cancelable lease terms in excess of one year are as follows:

Year ending December 31,	
2009	\$ 234,890
2010	229,968
2011	222,502
2012	189,173
2013	149,367
Thereafter	110,073
	\$ 1,135,973

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

15. Income taxes

Income tax expense for the years ended December 31, consists of the following:

	2008	2007
Current		
Federal	\$ 3,238,292	\$ 2,921,055
State and local	1,308,360	807,207
	4,546,652	3,728,262
Deferred		
Federal	620,268	38,171
State and local	195,967	12,033
	816,235	50,204
	\$ 5,362,887	\$ 3,778,466

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31 are presented below:

	2008	2007
Current deferred tax assets (liabilities)		
Prepaid insurance	(\$ 1,224,992)	(\$ 746,635)
Other accruals	398,458	296,556
	(826,534)	(450,079)
Long-term deferred tax assets (liabilities)		
Plant and equipment	132,265	305,303
Amortization of intangibles	(1,370,595)	(1,251,652)
UAR plan	167,119	140,706
Port of Portland note payable		372,655
Dry dock reclamation	565,628	323,216
Other accruals	56,770	100,739
	(448,813)	(9,033)
Net deferred tax liabilities	(\$ 1,275,347)	(\$ 459,112)

The effective tax rate differs from the federal statutory income tax rate of 34% due to the following: (1) all of the Company's entities except Cascade General, Inc. are limited liability companies and are taxed at the member level with respect to federal and state income taxes; and (2) local taxes.

Deferred tax assets and liabilities consist of timing differences between book and tax income. A valuation allowance is recorded when it is more likely than not that some portion of the deferred tax assets will not be realized. There was no valuation allowance at December 31, 2008 or 2007.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

16. Benefit plans

The Company has two 401(k) plans, one for certain union employees and one for all non-union employees. Employees become eligible after three full calendar months of service under the non-union plan and, depending upon the employer, after various hours of service under the union plan. Employees may contribute between 2% and 25% of their compensation subject to the IRS limitation. The Company matches the employee's contribution to the extent periodically determined by management, but not to exceed 8%.

Employer contributions under both plans vest immediately. The Company contributed \$1,421,166 and \$1,063,662 for the years ended December 31, 2008 and 2007, respectively.

The Company also participates in three multi-employer pension plans for union employees. The Company contributed \$3,240,980 and \$1,808,766 to these plans during the years ended December 31, 2008 and 2007, respectively.

17. Contingencies

Environmental remediation

All material environmental remediation liabilities that are probable and reasonably estimable are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that may require a change in the estimated extent, method or timing of the remediation. The best estimate of the discounted present value of the probable cost, if any, is recorded.

The Portland Shipyard is located within a twelve mile stretch of the Willamette River that was first designated as a Superfund Site in 2000 by the United State Environmental Protection Agency (the "EPA"). The Company, the Port of Portland (the "Port") and 71 other entities have been named as potentially responsible parties. The Company and the Port had commissioned environmental studies in 1998 to establish a workable baseline for distinguishing between pre-existing and subsequent contamination at the Portland Shipyard. The Company purchased the Portland Shipyard from the Port in 2000. Concurrent with the purchase, the Company and the Port executed a contract to document the negotiated settlement concerning contamination. The contract provides that, in exchange for a fixed payment made to the Port by the Company, the Port is responsible for paying all costs under Superfund law that might be identified or allocated to the Company as a result of pre-existing contamination. The Company has the exposure for any costs that may arise that are not a result of pre-existing contamination.

The Company is currently participating in voluntary allocation negotiations with a large group of potentially responsible parties. It is likely that the Company will ultimately reach a settlement and incur costs consistent with its position that it was responsible for, at most, a "de minimus" percentage of the costs associated with the Superfund Site as a whole. However, even a "de minimus" percentage of the costs may result in an amount that may have a material effect on the Company's consolidated financial position, results of operations, or cash flows. Since any settlement amount cannot be reasonably estimated as of December 31, 2008, no reserve has been recorded.

In consideration of the possibility that the Company's normal maintenance dredging in the contaminated areas may occur prior to any required cleanup by the Port, the parties provided a mechanism for the Company to receive

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

17. Contingencies (continued)

reimbursement for a portion of the cost of its maintenance dredging, to the extent that it simultaneously contributed to the cleanup of the contaminated sediments. No such reimbursements have been earned as of December 31, 2008.

The Company anticipates that cash expenditures in future periods for remediation costs at the Portland Shipyard will be made over an extended period of time. Given the inherent uncertainties in evaluating environmental exposures, it is difficult to make reliable cost estimates as of December 31, 2008. Future information and developments will require the Company to continually reassess the expected impact of these environmental matters.

Environmental investigations

The Company has committed to comply with two ongoing investigations relating to environmental conditions at the Portland Shipyard. The first is a document request delivered by the EPA to the Company and 282 other entities believed to have information necessary to study and evaluate the Superfund Site. The second is a joint study with the State of Oregon Department of Environmental Quality to investigate potential impacts to the Willamette River from stormwater discharges occurring at the Portland Shipyard. The Company has estimated that it will incur approximately \$430,000 of costs from 2009 through 2011 to comply with the two investigations and, therefore, has accrued a related undiscounted liability as of December 31, 2008 (see Note 10).

It is probable that the stormwater discharge investigation, when complete, will result in costs to reduce future stormwater discharges. However, the nature and timing of those costs, including whether they would be capitalized or expensed, cannot be reasonably estimated. As a result, no reserve has been recorded as of December 31, 2008.

Litigation

From time-to-time, the Company may be a party to various claims, actions or complaints arising in the normal course of business. Although the ultimate resolution of any legal proceeding is subject to many variables and cannot be predicted with any degree of certainty, management currently believes that adequate reserves have been established for probable losses expected to be incurred from litigation when the amounts could be reasonably determined. Management further believes that the ultimate outcome of these legal proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. The Company accrued approximately \$70,000 and \$300,000 at December 31, 2008 and 2007, respectively, as a reserve for such matters.

Union contracts

The Company is also subject to risk of work stoppages and other labor relations matters, as Cascade General, Inc., Vigor Marine LLC and Washington Marine Repair LLC hourly employees (the "Union") are covered by separate collective bargaining agreements. These collective bargaining agreements expire in 2009 and 2011. The Company has not experienced any work stoppages in the past and expects to successfully renew its Union agreements in the future; however, any prolonged work stoppage or strike could have a negative impact on the Company's consolidated financial position or results of operations.

Guarantees

The majority member of the Company has personally indemnified the surety that provides bonds to the Company and USB and has guaranteed the \$2,545,920 promissory note due to a former owner of the Company (see Note 11). As consideration for these arrangements, the Company paid the majority owner \$200,000 both in 2008 and 2007.

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

18. Tenant income

Tenant income consists of amounts received from tenants for leased facilities, related services and facility improvements for work performed on the tenant's behalf. Tenant income is stated net of related costs incurred. Minimum amounts receivable under non-cancellable tenant leases subsequent to December, 31, 2008 are as follows:

Year ending December 31,	USB	Others	Total
2009	\$ 317,000	\$ 397,276	\$ 714,276
2010	342,024	417,648	759,672
2011	228,856	378,448	607,304
2012		247,008	247,008
	\$ 887,880	\$ 1,440,380	\$ 2,328,260

19. Surety bonds

As a condition for entering into some of its ship repair contracts, the Company had outstanding surety bonds as of December 31, 2008 and 2007.

SUPPLEMENTAL INFORMATION

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

ASSETS

December 31, 2008	Vigor Industrial LLC	Cascade General, Inc.	Shipyard Commerce LLC	Washington Marine Repair LLC	Specialty Finishes LLC	Vigor Marine LLC	Eliminations	Vigor Industrial LLC and Subsidiaries
Current assets								
Cash and cash equivalents	\$ 2,009,165	\$ 877,902	\$ 697,759	\$ 557,652	\$ 553,591	\$ 854,325		\$ 5,550,394
Accounts receivable, net	630,458	11,333,516	305,423	650,454	603,361	9,916,196	(\$ 5,589,797)	17,849,611
Notes receivable	600,000	7,300,000					(7,900,000)	-
Costs and estimated earnings in excess of billings on uncompleted contracts	25,312	4,195,388		29,421	43,945	3,615,799	(1,884,159)	6,025,706
Inventories		736,431			82,143			818,574
Prepaid expenses and other	63,156	703,446	405		16,573	41,964		825,544
Prepaid income taxes		443,697						443,697
Total current assets	3,328,091	25,590,380	1,003,587	1,237,527	1,299,613	14,428,284	(15,373,956)	31,513,526
Property, plant and equipment, net	106,886	3,158,717	23,934,875	84,196	629,762	509,614		28,424,050
Goodwill, net		6,764,706		897,071				7,661,777
Other assets	763,968	447,189	109,589					1,320,746
Investment in wholly owned subsidiaries	41,259,223						(41,259,223)	
Total assets	\$ 45,458,168	\$ 35,960,992	\$ 25,048,051	\$ 2,218,794	\$ 1,929,375	\$ 14,937,898	(\$ 56,633,179)	\$ 68,920,099

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

LIABILITIES AND MEMBERS' EQUITY

December 31, 2008	Vigor Industrial LLC	Cascade General, Inc.	Shipyard Commerce LLC	Washington Marine Repair LLC	Specialty Finishes LLC	Vigor Marine LLC	Eliminations	Vigor Industrial LLC and Subsidiaries
Current liabilities								
Current portion of long-term debt	\$ 737,800	\$ 54,085	\$ 1,675,288					\$ 2,467,173
Accounts payable	455,602	4,984,887	483,463	\$ 89,507	\$ 179,420	\$ 6,325,249	(\$ 7,405,350)	5,112,778
Accrued expenses	565,663	2,513,958	168,009	102,235	266,770	434,136		4,050,771
Intercompany notes payable	7,300,000					600,000	(7,900,000)	
Billings in excess of cost and estimated earnings on uncompleted contracts		222,038	105,697	618		102,404	(68,606)	362,151
Deferred income taxes		826,534						826,534
Total current liabilities	9,059,065	8,601,502	2,432,457	192,360	446,190	7,461,789	(15,373,956)	12,819,407
Fair value of interest rate swap			2,000,644					2,000,644
Investment in US Barge LLC	687,087							687,087
Long-term debt, net of current portion	1,808,120	405,668	17,984,741					20,198,529
UAR plan liability	1,340,451	413,641		33,597		100,496		1,888,185
Deferred income taxes		448,813						448,813
Total liabilities	12,894,723	9,869,624	22,417,842	225,957	446,190	7,562,285	(15,373,956)	38,042,665
Commitments and contingencies								
Members' equity								
Common stock		9,784					(9,784)	
Additional paid-in capital		12,488,763					(12,488,763)	
Accumulated comprehensive loss	(752,705)		(2,000,644)					(2,753,349)
Retained earnings		13,592,821					(13,592,821)	
Members' equity	33,316,150		4,630,853	1,992,837	1,483,185	7,375,613	(15,167,855)	33,630,783
	32,563,445	26,091,368	2,630,209	1,992,837	1,483,185	7,375,613	(41,259,223)	30,877,434
Total liabilities and members' equity	\$ 45,458,168	\$ 35,960,992	\$ 25,048,051	\$ 2,218,794	\$ 1,929,375	\$ 14,937,898	(\$ 56,633,179)	\$ 68,920,099

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2008	Vigor Industrial LLC	Cascade General, Inc.	Shipyard Commerce LLC	Washington Marine Repair LLC	Specialty Finishes LLC	Vigor Marine LLC	Eliminations	Vigor Industrial LLC and Subsidiaries
Contract revenues	\$ 207,480	\$ 118,596,265	\$ 3,596,085	\$ 9,817,595	\$ 9,458,046	\$ 70,607,639	(\$ 55,281,160)	\$ 157,001,950
Cost of contract revenues	326,267	100,019,285	1,651,320	7,938,657	6,494,003	65,067,098	(53,858,429)	127,638,201
Gross profit (loss)	(118,787)	18,576,980	1,944,765	1,878,938	2,964,043	5,540,541	(1,422,731)	29,363,749
General and administrative expenses	202,352	5,068,332	143,315	256,505	622,072	976,873	(35,669)	7,233,780
Income (loss) from operations	(321,139)	13,508,648	1,801,450	1,622,433	2,341,971	4,563,668	(1,387,062)	22,129,969
Other income (expense)								
Interest expense	(567,912)	(40,184)	(844,174)	(46,925)	(4,405)	(108,871)	711,205	(901,266)
Interest income	138,926	520,401	92,956	14,409	382	59,612	(711,205)	115,481
Tenant income, net of expenses		(435,627)					1,387,062	951,435
Loss from US Barge LLC	(4,707,864)							(4,707,864)
Gain on extinguishment of debt			487,782					487,782
Write-down of dry dock held for sale		(600,000)						(600,000)
Income from subsidiaries	17,693,379						(17,693,379)	
Other income (expense), net	1,004	225,988	(72,321)	(2,834)	12,326	25,715		189,878
Total other income (expense)	12,557,533	(329,422)	(335,757)	(35,350)	8,303	(23,544)	(16,306,317)	(4,464,554)
Income before income taxes	12,236,394	13,179,226	1,465,693	1,587,083	2,350,274	4,540,124	(17,693,379)	17,665,415
Income tax expense	248,495	5,107,592				6,800		5,362,887
Net income	\$ 11,987,899	\$ 8,071,634	\$ 1,465,693	\$ 1,587,083	\$ 2,350,274	\$ 4,533,324	(\$ 17,693,379)	\$ 12,302,528

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2008	Vigor Industrial LLC	Cascade General, Inc.	Shipyard Commerce LLC	Washington Marine Repair LLC	Specialty Finishes LLC	Vigor Marine LLC	Eliminations	Vigor Industrial LLC and Subsidiaries
Cash flows from operating activities								
Net income	\$ 11,987,899	\$ 8,071,634	\$ 1,465,693	\$ 1,587,083	\$ 2,350,274	\$ 4,533,324	(\$ 17,693,379)	\$ 12,302,528
Adjustments to reconcile net income to net cash provided by operating activities								
Depreciation and amortization	25,438	720,757	872,489	18,239	135,372	73,552		1,845,847
Allowance for doubtful accounts		(758)		4,803	(14,625)	181,266		170,686
Deferred income taxes		816,235						816,235
Write-down of dry dock held for sale		600,000						600,000
(Gain) loss on disposal of equipment		(8,008)		1,170				(6,838)
Gain on extinguishment of debt			(487,782)					(487,782)
Loss from US Barge LLC	4,707,864							4,707,864
Other non-cash		(18,486)	40,183					21,697
UAR plan liability	211,603	229,339		33,597		69,778		544,317
Income from subsidiaries	(17,693,379)						17,693,379	
Changes in operating assets and liabilities								
Accounts receivable	(2,311,153)	(2,069,392)	16,309	(157,776)	(85,718)	(5,951,284)	1,727,570	(8,831,444)
Costs and estimated earnings in excess of billings on uncompleted contracts	16,647	(1,503,531)	38,219	173,583	(36,669)	(3,016,044)	1,363,959	(2,963,836)
Inventories		(104,945)			13,851			(91,094)
Prepaid expenses and other	(63,156)	182,328	(405)		(439)	(17,612)		100,716
Prepaid income taxes	(90,000)	(96,843)						(186,843)
Other assets	(763,968)	70,751						(693,217)
Accounts payable	405,260	(533,763)	140,982	(264,601)	5,900	3,285,339	(3,124,513)	(85,396)
Accrued expenses	(155,141)	1,155,378	71,682	(21,432)	180,080	178,722	344,107	1,753,396
Billings in excess of costs and estimated earnings on uncompleted contracts		(313,222)	43,858	618		(56,770)	(42,016)	(367,532)
Net cash provided by (used in) operating activities	(3,722,086)	7,197,474	2,201,228	1,375,284	2,548,026	(719,729)	269,107	9,149,304

(Continued)

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Year Ended December 31, 2008	Vigor Industrial LLC	Cascade General, Inc.	Shipyards Commerce LLC	Washington Marine Repair LLC	Specialty Finishes LLC	Vigor Marine LLC	Eliminations	Vigor Industrial LLC and Subsidiaries
Cash flows from investing activities								
Purchase of property, plant and equipment	(114,710)	(860,373)	(10,902,214)	(59,387)	(176,662)	(119,497)		(12,232,843)
Investment in US Barge LLC	(1,100,000)							(1,100,000)
Change in asset held for sale		(225,084)						(225,084)
Proceeds from sale of equipment		8,100						8,100
Net cash used in investing activities	(1,214,710)	(1,077,357)	(10,902,214)	(59,387)	(176,662)	(119,497)		(13,549,827)
Cash flows from financing activities								
Scheduled principal payments on long-term debt		(49,817)	(1,409,375)	(19,790)				(1,478,982)
Extinguishment of long-term debt			(8,107,982)	(812,589)				(8,920,571)
Borrowings on long-term debt			20,000,000					20,000,000
Debt issuance costs			(118,475)					(118,475)
Redemption of member units	(2,545,920)							(2,545,920)
Distributions to members	(3,800,000)	(6,000,000)	(1,200,000)	(300,000)	(2,000,000)	(1,000,000)	10,800,000	(3,500,000)
Change in intercompany notes receivable	(600,000)	(2,530,893)					3,130,893	
Change in intercompany notes payable	2,800,000					600,000	(3,400,000)	
Capital contribution between companies	10,500,000			200,000	100,000		(10,800,000)	
Net cash provided by (used in) financing activities	6,354,080	(8,580,710)	9,164,168	(932,379)	(1,900,000)	(400,000)	(269,107)	3,436,052
Net change in cash and cash equivalents	1,417,284	(2,460,593)	463,182	383,518	471,364	(1,239,226)		(964,471)
Cash and cash equivalents at beginning of year	591,881	3,338,495	234,577	174,134	82,227	2,093,551		6,514,865
Cash and cash equivalents at end of year	\$ 2,009,165	\$ 877,902	\$ 697,759	\$ 557,652	\$ 553,591	\$ 854,325		\$ 5,550,394

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF CONTRACTS IN PROGRESS

Year Ended December 31, 2008

Contract	Estimated at Completion			From Inception to December 31, 2008						As of December 31, 2008		During the Year Ended December 31, 2008		
	Revenues	Cost of revenues	Gross profit (loss)	Revenues	Direct and variable cost of revenues	Gross margin	Allocation of fixed cost of revenues	Gross profit (loss)	Billings	Cost and estimated earnings in excess of of billings on uncompleted contracts	Billings in excess of cost and estimated earnings on uncompleted contracts	Revenues	Cost of revenues	Gross profit (loss)
1	\$ 14,677,522	\$ 15,255,154	(\$ 577,632)	\$ 13,889,886	\$ 12,127,638	\$ 1,762,248	\$ 2,339,880	(\$ 577,632)	\$ 12,981,386	\$ 908,500		\$ 12,393,631	\$ 13,234,453	(\$ 840,822)
2	4,405,659	3,435,066	970,593	4,320,342	3,022,683	1,297,659	336,772	960,887	4,126,769	193,573		3,556,654	2,687,363	869,291
3	8,573,935	6,328,827	2,245,108	8,573,935	5,259,401	3,314,534	1,069,426	2,245,108	8,095,805	478,130		8,573,935	6,328,827	2,245,108
4	4,401,054	2,607,892	1,793,162	1,621,677	728,360	893,317	176,052	717,265	1,786,302		(\$ 164,625)	1,621,677	904,412	717,265
5	4,449,264	3,495,716	953,548	2,406,955	1,507,390	899,565	403,720	495,845	2,311,442	95,513		2,406,955	1,911,110	495,845
6	5,917,828	4,288,383	1,629,445	5,917,828	3,544,816	2,373,012	743,567	1,629,445	5,927,841		(10,013)	5,917,828	4,288,383	1,629,445
7	651,187	343,049	308,138	369,735	129,561	240,174	36,803	203,371	254,082	115,653		369,735	166,364	203,371
8	7,449,169	5,611,901	1,837,268	2,840,453	1,709,221	1,131,232	451,443	679,789	1,773,703	1,066,750		2,840,453	2,160,664	679,789
9	7,635,566	5,556,057	2,079,509	7,635,566	4,552,697	3,082,869	1,003,360	2,079,509	6,506,571	1,128,995		7,635,566	5,556,057	2,079,509
10	2,393,597	1,884,695	508,902	937,026	382,554	554,472	361,089	193,383	41,349	895,677		937,026	743,643	193,383
11	6,266,297	4,411,527	1,854,770	854,393	516,460	337,933	133,908	204,025	903,549		(49,156)	854,393	650,368	204,025
12	975,983	352,099	623,884	776,920	174,191	602,729	106,117	496,612	776,920			776,920	280,308	496,612
Layups				580,442	68,190	512,252	467,800	44,452	521,840	58,602		580,442	535,990	44,452
Small contracts				1,140,530	640,210	500,320	587,705	(87,385)	697,132	551,772	(108,374)	1,140,532	1,227,918	(87,386)
US Barge tenant activities										48,945	(29,983)			
US Barge production activities				634,835	523,883	110,952	95,275	15,677	357,969	276,866		618,690	603,015	15,675
Substantially completed contracts										206,730				
	\$ 67,797,061	\$ 53,570,366	\$ 14,226,695	\$ 52,500,523	\$ 34,887,255	\$ 17,613,268	\$ 8,312,917	\$ 9,300,351	\$ 47,062,660	\$ 6,025,706	(\$ 362,151)	\$ 50,224,437	\$ 41,278,875	\$ 8,945,562

VIGOR INDUSTRIAL LLC AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF COMPLETED CONTRACTS

Year Ended December 31, 2008

Contract	Contract Total					Prior to January 1, 2008					During the Year Ended December 31, 2008				
	Revenues	Direct and variable cost of revenues	Gross margin	Allocation of fixed cost of revenues	Gross profit (loss)	Revenues	Direct and variable cost of revenues	Allocation of fixed cost of revenues	Cost of revenues	Gross profit	Revenues	Direct and variable cost of revenues	Allocation of fixed cost of revenues	Cost of revenues	Gross profit (loss)
1	\$ 4,794,783	\$ 2,856,540	\$ 1,938,243	\$ 571,212	\$ 1,367,031						\$ 4,794,783	\$ 2,856,540	\$ 571,212	\$ 3,427,752	\$ 1,367,031
2	4,366,426	2,654,321	1,712,105	570,038	1,142,067						4,366,426	2,654,321	570,038	3,224,359	1,142,067
3	6,486,959	5,125,673	1,361,286	721,281	640,005						6,486,959	5,125,673	721,281	5,846,954	640,005
4	291,397	146,606	144,791	12,007	132,784	\$ 267,698	\$ 140,762	\$ 11,993	\$ 152,755	\$ 114,943	23,699	5,844	14	5,858	17,841
5	5,630,282	4,533,509	1,096,773	6,609	1,090,164	3,399,147	2,861,295	6,550	2,867,845	531,302	2,231,135	1,672,214	59	1,672,273	558,862
6	1,422,189	1,168,409	253,780	325,103	(71,323)						1,422,189	1,168,409	325,103	1,493,512	(71,323)
7	1,534,760	888,507	646,253	351,616	294,637	1,438,199	771,549	348,376	1,119,925	318,274	96,561	116,958	3,240	120,198	(23,637)
8	1,586,021	1,197,757	388,264	518,480	(130,216)	570,728	306,653	221,193	527,846	42,882	1,015,293	891,104	297,287	1,188,391	(173,098)
9	356,489	305,475	51,014	117,469	(66,455)	370,711	305,475	117,469	422,944	(52,233)	(14,222)			(14,222)	
10	959,565	438,971	520,594	155,574	365,020						959,565	438,971	155,574	594,545	365,020
11	5,324,473	3,091,975	2,232,498	754,591	1,477,907						5,324,473	3,091,975	754,591	3,846,566	1,477,907
12	11,746,976	10,346,177	1,400,799	1,048,920	351,879						11,746,976	10,346,177	1,048,920	11,395,097	351,879
13	1,320,502	579,777	740,725	140,341	600,384						1,320,502	579,777	140,341	720,118	600,384
14	554,690	419,750	134,940	71,191	63,749						554,690	419,750	71,191	490,941	63,749
15	541,337	383,358	157,979	66,571	91,408						541,337	383,358	66,571	449,929	91,408
16	284,298	142,149			142,149						284,298	142,149		142,149	
17	652,576	497,877	154,699	71,060	83,639						652,576	497,877	71,060	568,937	83,639
18	1,817,880	1,204,604	613,276	272,678	340,598						1,817,880	1,204,604	272,678	1,477,282	340,598
19	1,735,169	992,132	743,037	215,579	527,458						1,735,169	992,132	215,579	1,207,711	527,458
20	1,707,698	802,335	905,363	217,588	687,775	1,548,524	749,031	209,787	958,818	589,706	159,174	53,304	7,801	61,105	98,069
21	11,637,857	10,368,978	1,268,879	1,022,627	246,252	2,766,839	2,178,084	299,152	2,477,236	289,603	8,871,018	8,190,894	723,475	8,914,369	(43,351)
22	1,070,251	715,374	354,877	147,713	207,164	880,815	605,729	118,397	724,126	156,689	189,436	109,645	29,316	138,961	50,475
23	1,291,675	834,191	457,484	207,376	250,108	575,570	297,832	115,042	412,874	162,696	716,105	536,359	92,334	628,693	87,412
24	320,131	149,971	170,160	47,781	122,379						320,131	149,971	47,781	197,752	122,379
25	839,152	483,022	356,130	1,950	354,180	799,951	446,454	1,385	447,839	352,112	39,201	36,568	565	37,133	2,068
26	674,763	536,718	138,045	6,448	131,597	590,091	460,745	6,448	467,193	122,898	84,672	75,973		75,973	8,699
27	282,550	216,722	65,828								282,550	216,722		216,722	65,828
28	374,088	107,858	266,230	51,397	214,833						374,088	107,858	51,397	159,255	214,833
29	395,920	229,259	166,661	76,523	90,138						395,920	229,259	76,523	305,782	90,138
30	278,356	194,131	84,225	63,178	21,047						278,356	194,131	63,178	257,309	21,047
31	349,538	140,983	208,555	63,255	145,300						349,538	140,983	63,255	204,238	145,300
32	7,439,785	4,363,365	3,076,420	787,377	2,289,043						7,439,785	4,363,365	787,377	5,150,742	2,289,043
33	628,265	356,091	272,174	88,737	183,437						628,265	356,091	88,737	444,828	183,437
34	2,435,435	1,225,996	1,209,439	223,736	985,703						2,435,435	1,225,996	223,736	1,449,732	985,703
35	4,575,511	2,519,171	2,056,340	539,219	1,517,121						4,575,511	2,519,171	539,219	3,058,390	1,517,121
36	674,013	396,828	277,185	85,438	191,747						674,013	396,828	85,438	482,266	191,747
37	1,253,060	611,258	641,802	181,581	460,221						1,253,060	611,258	181,581	792,839	460,221
38	3,332,438	2,192,258	1,140,180	450,218	689,962						3,332,438	2,192,258	450,218	2,642,476	689,962
39	3,297,798	2,495,445	802,353	610,981	191,372						3,297,798	2,495,445	610,981	3,106,426	191,372
40	297,315	50,371	246,944	156,436	90,508						297,315	50,371	156,436	206,807	90,508
41	477,276	321,251	156,025	99,935	56,090						477,276	321,251	99,935	421,186	56,090
42	420,133	276,015	144,118	71,818	72,300						420,133	276,015	71,818	347,833	72,300
43	295,946	73,534	222,412	175,077	47,335						295,946	73,534	175,077	248,611	47,335
44	5,015,355	3,237,667	1,777,688	692,114	1,085,574						5,015,355	3,237,667	692,114	3,929,781	1,085,574
45	317,723	191,892	125,831	59,726	66,105						317,723	191,892	59,726	251,618	66,105
46	909,450	710,566	198,884	91,512	107,372						909,450	710,566	91,512	802,078	107,372
47	731,564	337,135	394,429	125,890	268,539						731,564	337,135	125,890	463,025	268,539
48	2,929,101	747,423	2,181,678	516,313	1,665,366						2,929,101	747,423	516,313	1,263,736	1,665,366
Layups	544,827	63,657	481,170	437,048	44,122	544,827	63,657	437,048	500,705	44,122					
Small contracts	12,584,220	7,443,553	5,140,667	2,950,721	2,189,946	775,517	585,661	124,101	709,762	65,755	11,808,703	6,857,892	2,826,620	9,684,512	2,124,191
US Barge production activities	4,981,353	4,343,284	638,069	786,996	(148,928)	2,463,189	2,239,444	348,260	2,587,704	(124,515)	2,518,164	2,103,840	438,736	2,542,577	(24,413)
Totals	\$ 123,769,319	\$ 83,709,869	\$ 40,059,450	\$ 17,027,029	\$ 23,032,422	\$ 16,991,806	\$ 12,012,371	\$ 2,365,201	\$ 14,377,572	\$ 2,614,234	\$ 106,777,513	\$ 71,697,498	\$ 14,661,828	\$ 86,359,326	\$ 20,418,187